

REPORT OF
FINANCIAL EXAMINATION
LEWIS COUNTY MUTUAL INSURANCE COMPANY

AS OF
December 31, 2003



STATE OF MISSOURI
DEPARTMENT OF INSURANCE
JEFFERSON CITY, MISSOURI

TABLE OF CONTENTS

<u>SUBJECT</u>	<u>PAGE</u>
SALUTATION	1
INTRODUCTION	1
SCOPE OF EXAMINATION:	
Period Covered	1
Procedures.....	2
Comments - Previous Examination Report.....	2
HISTORY:	
General.....	3
Management and Control.....	3
Conflict of Interest.....	5
Corporate Records	5
FIDELITY BOND & OTHER INSURANCE	5
EMPLOYEES' BENEFIT PLAN.....	6
INSURANCE PRODUCTS AND RELATED PRACTICES:	
Territory and Plan of Operations	7
Policy Forms and Underwriting Practices	7
GROWTH AND LOSS EXPERIENCE OF THE COMPANY	8
REINSURANCE:	
Assumed.....	8
Ceded	8
ACCOUNTS AND RECORDS:.....	9
FINANCIAL STATEMENTS:	
Admitted Assets	11
Liabilities, Surplus and Other Funds	11
Statement of Income	12
Capital and Surplus Account	12
Notes To The Financial Statements	13
EXAMINATION CHANGES	13

GENERAL COMMENTS AND RECOMMENDATIONS	13
SUBSEQUENT EVENTS	13
ACKNOWLEDGMENT.....	14
VERIFICATION.....	14
SUPERVISION.....	14

June 4, 2004
Lewistown, Missouri

Honorable Scott B. Lakin, Director
Missouri Department of Insurance
301 West High Street, Room 630
Jefferson City, Missouri 65101

Sir:

In accordance with your examination warrant, a financial examination has been made of the records, affairs and financial condition of the

Lewis County Mutual Insurance Company

hereinafter referred to as such or as the "Company." The Company's home office and principal place of business is located at P.O. Box 37, North Elm, Lewistown, Missouri 63452, telephone number (573) 497-2703. This examination began June 1, 2004 and concluded June 4, 2004.

SCOPE OF EXAMINATION

Period Covered

The Company was last examined by the Missouri Department of Insurance in 1999, for the year ending December 31, 1998. The current examination covers the period from January 1, 1999, through December 31, 2003, and was conducted by an examiner from the Missouri Department of Insurance.

This examination also included material transactions or events occurring subsequent to December 31, 2003.

Procedures

This examination was conducted using the guidelines set forth in the Financial Condition Examiners Handbook of the National Association of Insurance Commissioners (NAIC), except where practices, procedures and applicable regulations of the Missouri Department of Insurance and statutes of the State of Missouri prevailed.

Comments - Previous Examination Report

The general comments and recommendations taken from the previous examination report and the subsequent action taken by the Company are described below.

1. Comment/Recommendation: “The Company should amend its Articles of Incorporation to require a two-thirds majority of the membership in order to amend the Articles of Incorporation in compliance with Section 380.241 RSMo. The Company currently allows a simple majority to amend the Articles of Incorporation.”

Company Response: The Company agreed to amend its Articles of Incorporation.

Current Findings: The Articles of Incorporation were amended in March 2000 to incorporate the change suggested in the examination report.

2. Comment/Recommendation: “The Company should request approval from the Missouri Department of Insurance for its mutual fund holding in accordance with Section 380.471 RSMo.”

Company Response: The Company agreed to get the required approval for its mutual fund.

Current Findings: The Company no longer holds any mutual funds.

HISTORY

General

Lewis County Mutual Insurance Company was originally organized as Lewis County Benefit Association in March, 1880. On December 12, 1932, the Company was granted a charter of incorporation by the Missouri Secretary of State as Grange Mutual Insurance Company of Lewis County, Missouri. On February 16, 1982 the Company changed its name to Lewis County Mutual Insurance Company.

On August 15, 1991 the Company was issued a Certificate of Authority by the Missouri Department of Insurance placing the Company under Sections 380.201 through 380.611 RSMo, which govern Extended Missouri Mutual Insurance Companies.

Management and Control

In accordance with the Articles of Incorporation, the annual meeting of the Company's members is held on the fourth Monday in March, at the home office of the Company or at such other place as may be designated by the Board of Directors. Special meetings of the members may be called by the Board of Directors at any time and shall be called upon petition of one-fourth of the members.

The management of the Company is vested in the Board of Directors, which is elected from the general membership. The Board of Directors consists of seven directors each of whom serves a three-year term. All directors must be policyholders of the Company. The Board meets quarterly. Directors are compensated \$200 for each meeting attended.

Members serving on the Board of Directors as of December 31, 2003 were as follows:

<u>Name and Address</u>	<u>Occupation</u>	<u>Term Expires</u>
Otis Crook 2956 County Road 167 Philadelphia, MO 63463	Retired	2006
Douglas Hinkle 17679 St. Hwy. 156 Ewing, MO 63440	Business Owner	2004
Brenda L. Sharpe 405 S. Elm Lewistown, MO 63452	Agent	2006
Randall D. Sharpe 405 S. Elm Lewistown, MO 63452	Agent, Postmaster	2005
David St. Clair 239 E. Cedar Kahoka, MO 63445	Agent, Farmer	2004
Dennis Winship 22366 Ponderosa Ave. LaGrange, MO 63448	Farmer	2005
Virden Winship 23407 Ponderosa Ave. LaGrange, MO 63448	Agent, Farmer	2004

At the annual membership meeting, the Board of Directors elects the following officers for a one-year term: President, Vice-President and Secretary-Treasurer.

Officers of the Company serving at December 31, 2003 were:

Virden Winship	President
Randall Sharpe	Vice-President
Brenda Sharpe	Secretary-Treasurer

Conflict of Interest

The Company requires conflict of interest statements for the disclosure of material conflicts of interest or affiliations from its directors and officers. A review of the statements for the years under examination revealed no conflicts, except for conflicts related to directors who are also agents. The Board accepted the statements as presented.

Corporate Records

A review was made of the Articles of Incorporation and the Bylaws of the Company. The Articles of Incorporation were amended in March 27, 2000. The amendment was made to require a two-thirds majority of the membership in order to amend the Articles. This change was made in response to the prior examination report.

No changes were made to the Bylaws during the period under examination. The minutes of the Membership and the Board of Directors' meetings were also reviewed for the period under examination. The minutes appear to properly document corporate events and transactions. The examination report as of December 31, 1998, was reviewed and accepted by the Company's Board of Directors.

FIDELITY BOND AND OTHER INSURANCE

The Company maintains employee dishonesty coverage providing a liability limit of \$250,000. This coverage exceeds the minimum amount of \$50,000 suggested in the guidelines promulgated by the NAIC. The bond is underwritten by Travelers Casualty and Surety Company.

The Company carries directors' and officers' liability coverage through MAMIC Mutual Insurance Company (Sikeston, Missouri) with an aggregate limit of \$2,000,000. The policy has

retentions of \$500 each director or officer each loss, \$2,500 aggregate each loss and \$5,000 aggregate each loss as respects Company reimbursement.

Each of the Company's agents carries errors and omissions coverage through MAMIC Mutual Insurance Company (Sikeston, Missouri). The liability limits vary for each agent and range from \$250,000 to \$500,000 depending upon the amount of business the agent writes. The Company does not reimburse agents for their errors and omissions coverage.

The Company has a business property policy issued by the Company. The policy insures the Company's office building and contents. The Company's computer equipment is covered through an inland marine policy with Cameron Mutual Insurance Company of Cameron, Missouri. The Company also has a commercial liability policy with Cameron Mutual Insurance Company of Cameron, Missouri. The policy covers personal and advertising injury, fire damage and medical expense.

The Company's insurance coverage appears adequate.

EMPLOYEES' BENEFIT PLAN

The Company has four full-time employees, the Company Secretary-Treasurer, an Office Assistant, the inspector and a clerical worker, and two part-time employees, the President and a clerical worker. Salaries and appointment of employees are determined by the Board of Directors. Employees receive paid vacation and paid personal days. Employees are reimbursed for business expenses. The Company maintains a detailed employee handbook and procedure manual.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operations

The Company is licensed by the Missouri Department of Insurance as an Extended Missouri Mutual Insurance Company operating under Sections 380.201 through 380.611 RSMo (Part II Farm Mutual). The Company is authorized to write fire, wind and liability insurance in all counties in the State of Missouri.

The Company's policies are sold by four licensed agents who receive a 15% commission on fire, windstorm and extended coverage and a 10% commission on liability and inland marine business.

Policy Forms and Underwriting Practices

The Company uses AAIS (American Association of Insurance Services) policy forms, supplied by the Missouri Association of Mutual Insurance Companies for policies written directly by the Company. The AAIS forms have been approved by the Missouri Department of Insurance.

All policies are written on a continuous basis and renewed annually. Renewal billings are mailed directly to the insured. Rates are determined by the Board of Directors.

The Company employs a full-time inspector. Claims adjusting procedures are performed by an independent adjuster.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

YEAR	1999	2000	2001	2002	2003
Admitted Assets	1,965,926	2,129,910	2,187,775	2,348,501	2,455,048
Liabilities	148,309	177,791	161,895	179,803	272,480
Gross Assessments	347,700	339,041	328,053	355,468	376,304
Losses Incurred	136,959	50,493	65,566	28,484	149,123
Investment Income	104,338	138,336	130,695	111,317	104,030
Underwriting Income	(26,433)	18,416	(55,064)	63,306	(108,384)
Net Income	70,803	117,708	74,470	136,117	9,374

At year-end 2003, 792 policies were in force.

REINSURANCE

Assumed

None

Ceded

The Company has a single agreement with Cameron Country Mutual Insurance Company of Cameron, Missouri (“Cameron”). This agreement provides four separate types of reinsurance coverage. The following is a description of the coverage provided by this agreement.

Per Risk Excess of Loss Property Reinsurance

For the first layer, the Reinsurer indemnifies the Company for each loss in excess of \$35,000. The limit of liability to the Reinsurer is \$100,000. At the second layer, the Reinsurer indemnifies the Company 100% of net losses in excess of \$135,000. The limit of liability to the Reinsurer is \$50,000 for commercial or confinement risks and \$250,000 for all other risks. The per occurrence limit is \$700,000 for the first and second layers combined.

Catastrophe Excess of Loss Property Reinsurance

For the first layer, the Reinsurer is liable for 95% of the Company's ultimate net loss in excess of \$85,000. The liability of the Reinsurer will not exceed \$950,000 for any one loss occurrence, and the annual limit is \$1,900,000. For the second layer, the Reinsurer is liable for 100% of the Company's net losses in excess of \$1,085,000. The Reinsurer's limit of liability is \$2,000,000 per occurrence and \$4,000,000 annually.

Aggregate Excess of Loss Property Reinsurance

The Reinsurer is liable for 95% of the Company's aggregate net losses during any calendar year in excess of 75% of the Company's net written premium income. The Reinsurer's limit of liability is \$2,000,000 per calendar year.

Liability Quota Share Reinsurance

The Company cedes 100% of its liability business to the reinsurer.

The Company's reinsurance program appears to be adequate.

ACCOUNTS AND RECORDS

The accounting records are maintained by the Company on an accrual basis. The Company's accountant, Wade, Stables, Schanbacher and Walker, CPA, prepares the Company's Statutory Annual Statement and the Company's federal and state income tax returns.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company at December 31, 2003, and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the annual statement and/or comments regarding such are made in the "Notes to the Financial Statements," which follow the financial statements. (The failure of any column of numbers to add to their respective totals is due to rounding or truncation.)

There may have been differences found in the course of this examination, which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial, concerning their effect on the financial statements. Therefore, they were communicated to the Company and noted in the workpapers for each individual annual statement item.

Admitted Assets

Bonds	\$353,357
Real Estate	10,039
Cash on Deposit	1,818,351
Other Investments	100,000
Assessments Uncollected	385
Reinsurance Recoverable on Unpaid Losses	94,750
Equipment	2,810
Investment in D/O-E/O Reserve	17,836
Prepaid Income Taxes	<u>57,520</u>
Total Assets	<u><u>\$2,455,048</u></u>

LIABILITES, SURPLUS AND OTHER FUNDS

Losses Unpaid	\$106,055
Ceded Reinsurance Payable	9,228
Unearned Premium	149,948
Accounts Payable Trade	1,012
Accrued Payroll Taxes	2,200
Accrued Income Taxes	<u>4,037</u>
Total Liabilities	<u><u>\$272,480</u></u>
 Guaranty Fund	 \$ 150,000
Other Surplus	<u>2,032,568</u>
 Total Policyholder Surplus	 <u><u>\$2,182,568</u></u>
 Total Liabilities and Policyholder Surplus	 <u><u>\$2,455,048</u></u>

STATEMENT OF INCOME

Net Assessment/Premium Income	\$264,649
Reinsurance Commission	532
<i>Less: Net Losses</i>	149,123
<i>Less: Underwriting Expenses</i>	<u>224,442</u>
Underwriting Income	(108,384)
Net Investment Income	104,030
Other Income	<u>13,728</u>
Gross Profit or (Loss)	9,374
<i>Less: Federal Income Tax</i>	<u>0</u>
Net Profit or (Loss)	<u>\$9,374</u>

CAPITAL AND SURPLUS ACCOUNT

Policyholders' Surplus December 31, 2002	\$2,165,359
Net Income (reported by the Company)	9,374
Change in securities (reported by the Company)	7,835
Examination Changes (Net)	<u>0</u>
Policyholders' Surplus, December 31, 2003	<u>\$2,182,568</u>

NOTES TO THE FINANCIAL STATEMENTS

None.

EXAMINATION CHANGES

None.

GENERAL COMMENTS AND RECOMMENDATIONS

None.

SUBSEQUENT EVENTS

None.

ACKNOWLEDGMENT

The assistance and cooperation extended by the directors, officers and employees of Lewis County Mutual Insurance Company in the course of this examination are hereby acknowledged and appreciated.

VERIFICATION

State of Missouri)
) ss
County of Cole)

I, John M. Boczkiewicz, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of the company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

John M. Boczkiewicz, CPA, CFE
Financial Examiner
Missouri Department of Insurance

Sworn to and subscribed before me this _____ day of _____, 2004.

My commission expires:

Notary Public

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.

J. Douglas Conley, CFE, FLMI, CIE, AIAF, ARe
Audit Manager - St. Louis
Missouri Department of Insurance